

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: Senate Bill 829 (First Edition)

SHORT TITLE: Small Business Tax Incentive.

SPONSOR(S): Senator Ford

FISCAL IMPACT					
(\$ in millions)					
	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input checked="" type="checkbox"/> No Estimate Available		
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
State Impact					
General Fund Revenues:	No Estimate Available. Please see assumptions and methodology				
General Fund Expenditures:					
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
NET STATE IMPACT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Local Impact					
Revenues:					
Expenditures:					
NET LOCAL IMPACT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue					
EFFECTIVE DATE: Taxable years beginning on or after January 1, 2016					
TECHNICAL CONSIDERATIONS: None					

BILL SUMMARY:

Section 179 of the Internal Revenue Code allows a business to immediately deduct, rather than gradually depreciate, the cost of qualified assets. The provision increases tax deductions for the year that assets are acquired. Use of the Section 179 deduction is subject to a dollar limitation and an investment limitation. The dollar limitation is the maximum amount of Section 179 deduction that a business may elect to claim for a tax year. The investment limitation phases out eligibility to claim the Section 179 deduction. For federal tax purposes for the 2016 tax year and after, Congress has permanently made the dollar limitation \$500,000, and the investment limitation \$2,000,000. The North Carolina dollar limitation is \$25,000, and the investment limitation is \$200,000.

The following table shows the estimated fiscal impact if North Carolina were to conform to the higher federal dollar and investment limitations for all businesses for the 2016 tax year and after.

Estimated Fiscal Impact of Conforming to Federal Section 179 Dollar and Investment Limitations For All Businesses Starting With The 2016 Tax Year (\$Millions)				
FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
-155.2	-51	-41.2	-33.9	-26.5

Senate Bill 829 conforms to the higher federal dollar and investment limitations for a small business engaged in the production of goods or delivery of services or both with gross annual sales of not more than \$2,000,000.

ASSUMPTIONS AND METHODOLOGY:

The fiscal impact will result from additional Section 179 tax deductions above what is allowed under existing State law claimed by businesses who meet both of the following conditions for a tax year:

1. Have gross sales of not more than \$2,000,000 and be engaged in the production of goods and/or delivery of services
2. Invest more than \$200,000 during the tax year on capital asset purchases but not more than \$2,000,000

The conditions will limit the number of taxpayers eligible to use the higher federal dollar and investment limitations for Section 179, and limit the amount of additional deductions claimed. This means that the fiscal impact will be less than the amounts shown in the table above for conformity for all businesses to the higher federal dollar and investment limitations. However, neither the Department of Revenue nor the IRS has data that enables Fiscal Research to identify the number of taxpayers, the total amount of investment, or the corresponding amount of additional tax deductions that would meet both of conditions. Consequently, no specific estimate of fiscal impact is available.

SOURCES OF DATA: NC Department of Revenue, IRS Statistics on Income

TECHNICAL CONSIDERATIONS: None

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